VZCZCXRO9415
PP RUEHBZ RUEHDU RUEHJO RUEHMR RUEHRN
DE RUEHWD #0201/01 1541333
ZNR UUUUU ZZH
P 031333Z JUN 09
FM AMEMBASSY WINDHOEK
TO RUEHC/SECSTATE WASHDC PRIORITY 0555
INFO RUCNSAD/SOUTHERN AFRICAN DEVELOPMENT COMMUNITY

UNCLAS SECTION 01 OF 04 WINDHOEK 000201

SIPDIS
SENSITIVE

E.O. 12958: N/A
TAGS: ECON PGOV WA
SUBJECT: Namibia's Budget - Trying to Grow Responsibly?

Summary

¶1. (SBU) Minister of Finance Saara Kuugongelwa-Amadhila tabled the Namibian government's (GRN) latest budget on March 20, shortly before the April 1 start of the new fiscal year. Due to the global economic crisis government, revenues are expected to fall for the next two years, while spending will increase slightly above inflation. The MOF has loosened deficit and debt targets, but it is unclear whether this is temporary (to respond to the crisis) or permanent. The GRN has reduced taxes for most Namibians while it has increased spending on its top priorities - education, defense, health, transport and the police. Some seemingly important infrastructure priorities appear to have been overlooked ? primarily rehabilitation of Namibia's aging rail network. Observers of the budget process generally praise the GRN for its transparency in making budget figures widely and promptly available, while asserting that the GRN has far to go in implementing a good performance measurement system for its spending. End Summary

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The Budget Process

¶2. (SBU) The Namibian fiscal year runs from April 1 to March 31, but the budget process usually begins in September of the preceding year. After months of deliberations between the line ministries and the Ministry of Finance (MOF) -- with input from the National Planning Commission (NPC), Bank of Namibia (BoN), and Namibia Economic Policy Research Unit (NEPRU) -- the Cabinet eventually approves the national budget. The budget consists of several documents, the most important being the Medium Term Expenditure Framework (MTEF) as well as the individual 31 line ministry and other government organization budgets. The MTEF outlines the government's three-year economic projections. With Cabinet's approval, the MoF tables the budget before parliament. This year, Minister of Finance Saara Kuugongelwa-Amadhila tabled the budget March 20, just 12 days before the new fiscal year.

¶3. (SBU) The two houses of parliament vote on individual ministry budgets which are in line-item form, not programmatic or performance budgets as described in the MTEF. In the 19 years since Namibia's independence, no budget put forward by the MOF has been changed in parliament. While parliamentarians do debate the budget, the ruling SWAPO party's majority has successfully prevented any alterations to the budget once it has been tabled. All real budget deliberations are hashed out in cabinet.

Economic Forecast

¶4. (SBU) The MOF forecasts nominal GDP growth of 2.9 billion Namibian dollars (N$) or USD 365 million, to N$69.9 billion or USD 8.7 billion (at the current exchange rate of 1 USD equals

8 N$) for the current fiscal year (April 2009 to March 2010). This projection anticipates real GDP growth of just 1.1 percent in the next fiscal year. By contrast, more recent projections by well-regarded private economists and the Bank of Namibia forecast slightly negative (declining) GDP growth. The MOF expects the Namibian economy to start recovering in FY2010/2011, and claims some of the recovery will be due to increases in government spending. Over the entire three year MTEF period, the MOF anticipates real GDP growth to average 2.2 percent.

Budget Balance and Debt Levels

¶5. (SBU) The GRN projects it will run budget deficits approaching or exceeding five percent of GDP over the next three years. This will exceed the GRN's budget deficit target of no more than three percent of GDP. The GRN will also eclipse its stated debt target of 25 percent of GDP by the end of the three year MTEF period. MOF officials could not confirm whether the deficit and debts targets have been permanently lifted or if they are simply a temporary (short-term) response to the current global economic crisis. (Comment: Given the GRN's fiscal prudence over the past few years - when it ran surpluses, which allowed it to tame its debt stock ? a short term rise in the targets does not appear to be particularly alarming and makes sense given the global economic crisis. End Comment).

Table 1A: Budget Deficit as a Percentage of GDP

Year	2007-2008	2008-2009	2009-2010	2010-2011	2011-2012
Deficit	3.3B	-0.5B	-3.1B	-4.0B	-3.8B
As % GDP	5.2%	-0.7%	-4.6%	-5.5%	-5.0%

Table 1B: Debt as a Percentage of GDP

Year	2007-2008	2008-2009	2009-2010	2010-2011	2011-2012
Debt Stock	11.9B	13.8B	15.1B	19.4B	23.2B
As % GDP	18.9%	20.5%	21.7%	26.3%	29.3%

Note: The 2007-2008 is an actual result, whereas other figures are estimates and projections.
All figures are in billions of Namibian dollars.

Revenue Forecast

¶6. (SBU) The MoF predicts it will collect N$21.4B in revenues, a 1.4 percent decrease over the prior fiscal year. Revenues will continue declining in FY2010/2011 until a rebound in the third year of the MTEF (FY2011/2012), according to the MOF's estimates. The decline in government revenues marks a sharp contrast to prior years where double digit increases were the norm. Domestic tax receipts are predicted to drop quite considerably (12 percent) in the current (FY2009/2010) fiscal year. The precipitous drop in diamond revenues will be the single largest contributor to the decrease in domestic tax receipts. Given the economic downtown, the revenue from diamonds (mining as well as cutting and polishing) which contributed over N$500 million to the government coffers last year is expected to drop to N$10 million this fiscal year.

¶7. (SBU) Drops in revenue from the Southern Africa Customs

Union (SACU) could also strain the treasury. Namibia's share of the SACU revenue pool historically makes up around 40 percent of total GRN revenues. SACU will likely collect significantly fewer import duties in the current fiscal year, but there is a lag effect in SACU revenue pool distributions. This delay means lower SACU receipts will likely not affect Namibia until the FY2010/2011 distributions.

Table 2: Government Revenues

Fiscal Year	2009/10	2010/11	2011/12
Total Revenues	N$21.42	N$20.84	N$22.44
Domestic Taxes	N$ 9.84	N$10.60	N$11.61
SACU Receipts	N$ 9.33	N$ 7.87	N$ 8.36
SACU Percent of Total	46.2%	40.4%	39.8%

Note: All figures (except for percentages) are in billions of Namibian dollars.

Tax Policy

¶8. (SBU) The GRN has introduced a number of tax cuts, some of which are intended to serve as an economic stimulus. Corporate taxes have been cut from 35 to 34 percent, although mining companies remain at the 35 percent rate. The government also adjusted personal income tax rates to provide relief to lower income earners. The GRN has raised the tax exemption threshold for severance packages paid out to recently laid-off workers and pensioners. The VAT holiday enacted in 2008 on staple food products, such as milk and sugar, has been extended. Fees on transfer payments ? payments on property transactions ? have also been reduced. Conversely, the GRN has begun requiring financial institutions to enforce a 10 percent tax on interest earned by their clients. Previously, the burden was on customers who rarely reported the income.

Expenditures

¶9. (SBU) The GRN describes its budget as expansionary in response to the global economic downturn. Overall spending this fiscal year is indeed forecasted to grow by 13 percent over the prior fiscal year. Much of the spending increases are tied to an across-the-board salary increase to civil

servants. Some economists have argued that with inflation at 10 to 12 percent, the budget is not expansionary enough. The budget has two broad expenditure categories: current (or operational) spending and development (investment) spending. Development spending in FY2009/2010 will increase more than 50 percent over the previous fiscal year from N$2.9B to N$4.4B, while operational spending is expected to increase by seven percent. State-owned enterprises -- AirNamibia, NamWater, NamPower and Transnamib (rail operator) ? will continue to receive sizeable government subsidies over the coming three years.

Table 3: Top Five Recipients of Government Spending As A Percentage of Total Budget

Budget Year	2008-09	2009-10
Education	20.62%	21.5%
Defense	8.8%	10.4%
Health and Social Services	9.0%	9.6%
Works and Transport	7.3%	7.5%
Police	5.2%	5.7%

Education Spending

¶10. (SBU) The Ministry of Education still tops the list of government recipients, receiving just over N$5 billion or 21.5 percent of the budget. The general (primary and secondary) education program receives the lion's share, or 76.5 percent of the ministry's budget. General education, nevertheless, has seen its share drop six percentage points from two years ago. Tertiary education is the big winner in this year's budget receiving 17.2 percent of spending; it only received 12.3 percent two years ago. The percentages for vocational education and adult education remain largely unchanged, with each receiving about three percent of the education budget.

Defense Spending

¶11. (SBU) The Ministry of Defense continues its long trend of increasing budgets. The defense budget will increase from N$2.4 billion last fiscal year to almost $2.6 billion for FY2009/10, a 9.5 percent increase. At independence defense received slightly less than five percent of the budget, while in the current fiscal year it will receive ten percent. Current projections have defense spending eclipsing 11 percent of spending in the subsequent two fiscal years. Most military spending is devoted to personnel, including salary increases and recruitment of new employees. Table 4 breaks down the defense budget by major categories.

Table 4: Defense Spending ('000)

	2009-10	2010-11	2011-12
Salaries/Admin	1,460,749	1,776,414	1,878,344
Acquisitions	340,000	384,000	300,662
Disaster relief	334,748	366,505	449,903
President security	311,990	232,140	192,400
Soldier assistance	34,629	42,341	45,860
Regional deployments	36,296	42,849	60,810
Construction (bases)	80,000	89,500	112,000
Total	2,598,412	2,933,749	3,039,979

Health and Social Services

¶12. (SBU) The Ministry of Health continues to run third in terms of spending priorities at 9.6 percent of the budget. Total health and social service spending is increasing from N$2.13 billion in FY2008/09 to N$2.41B in FY2009/10, a 13 percent increase. Renovation and construction of hospitals and regional clinics receive the bulk of the funding increases. The USG continues to be the single largest bilateral donor in the health sector, with the President's Emergency Plan for AIDS Relief (PEPFAR) contributing 39 percent of all health-related assistance funding, or roughly five percent of the ministry's total budget.

Works and Transport

¶13. (SBU) The Department of Transport under the Ministry of

Works and Transport will see a 70 percent increase in its development (long-term investment) budget in FY2009/2010. The focus on transport infrastructure improvements is viewed as an economic stimulus. Road construction and rehabilitation comprise 49 percent of the total transport budget (operational and development) while rail receives 14 percent. Of the rail

work, most is focused on extending a new rail line to Angola in the north of the country.

Measuring Performance Remains a Problem

¶14. (SBU) In the 2008 Open Budget Survey, an initiative of the Center on Budget and Policy Priorities (funded by the Open Society Institute and Ford and William and Flora Hewlett Foundations), Namibia scored in the middle of the pack of countries evaluated. The GRN ranks well on the dissemination of budget documents. Indeed the budget appeared on the MOF's website shortly after it was tabled on March 20, and the 835-page MTEF document provides significant detail on how the GRN plans to spend its resources. Where the GRN falls short, according to most critics, is measuring performance. The MTEF contains metrics for each ministry, but the indicators are not well designed. The Institute for Public Policy Research, a local think tank, states in its budget analysis that "indicators are at best indirectly related to a [Ministry's] performance, most do not stipulate numeric targets with deadlines and many are filled in sloppily (e.g. confusing absolute numbers with percentages, leaving blanks or having numbers that are quite obviously made up)."

Comment

¶15. (SBU) The GRN's budget documents are readily available to the public. IPPR's criticism notwithstanding, the fact the GRN has defined and published how it measures its performance is encouraging, given the absence of any such metrics prior to ¶2008. While education remains the top budgetary priority, systemic problems still impede the delivery of quality education in public schools. The continual increase in the health budget is encouraging as PEPFAR focuses more on sustainability and integration of HIV/AIDS programs with broader health and development efforts. Unfortunately, personnel costs for the military will continue to rise as the Namibian Defense Force is expected to recruit larger numbers of unemployed youth. The small allocation of funding for rail upgrades is surprising, given that major portions of Namibia's existing rail network is dilapidated. Critical links within the rail infrastructure (Walvis Bay to Tsumeb), which are vital to the GRN's plan to turn the port of Walvis Bay into a regional transshipment hub, require a robust rail network.
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